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# CONSUMPTION EXPENDITURE PATTERN OF RURAL HOUSEHOLDS
## (A Case Study in Guntur district of Andhra Pradesh)

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**I**

## INTRODUCTION

Economic Development is not only brings about significant changes in the socio-economic and cultural life of a habitant population but it also influences the levels of living in the long run (Dalip S. Thakur and Sarbject Singh-2006). India, a rapid developing and agrarian dominant economy has been bringing many changes in the socio economic life of her population since independence. Due to variations in natural resources endowments; physical and climatic conditions; economic factors like income, prices and the extent of magnetization; demographic factors like household size and degree of urbanization and cultural factors are likely to influence consumption expenditure pattern. Such diverse socio-economic, demographic and cultural factors are reflected in the inequality in the distribution of consumption expenditure as it is revealed by the national sample survey organization data on consumption expenditure in India.

**Need for studies on consumption expenditure pattern:**

The need for studies on consumption expenditure pattern in developing country like India is felt especially because development brings about significant changes in the size and structure of population, urbanization, attitudes and aspirations of various social classes and in the patterns of consumption (Kamal Vatta and R.S. Sidhu-2007). The exercises of consumption expenditure pattern in relating to such factors are of immense value for gaining knowledge of the future demand for different commodities and for effective socio-economic development planning. From the point of view of social policies such studies also throw considerable light on the living conditions of the people showing what proportions of families live in various states of poverty of affluence and how these proportions change through time (Nernade, D.K., and others-2002). Further, household consumer expenditure data collected in the budget surveys are useful for fiscal policies for imposing commodity taxes and also for working out the actual tax burden on different socio-economic groups.

The main objective of economic planning in all under-developed countries is to achieve a rapid increase in the real income of individuals. Such rise in real per capita income is usually accompanied by an increase in the demand for different

commodities. If the supply of these commodities falls short of the demand, the deficit will lead to rising prices of these goods, as also a rise in the general price level (Rao, C.H.H.-2000). Any effort is made to meet this deficit by means of imports may require cutting down of imports may required for economic development. If on the other hand, supply exceeds demand for different consumer goods, a surplus will appear on the market. This will leads to lowering the prices and may reduce the income of the producers. This may cause reduction in the demand for both industrial and agricultural products. In either situation, the process of economic development will be hampered. It is, therefore, valuable to have knowledge of the future demand for different consumer goods. The need for such knowledge is further heightened by the fact that in developing countries, the increased incomes in the hands of poor people will generate demand for consumer goods rather rapidly, and unless the available supplies match this increased demand, inflationary tendencies will appear. This is likely to impede the smooth functioning of the process of economic growth. Hence, the studies on consumption expenditure pattern in India are very useful in order to build up our planning strategies effectively.

**Importance of the present study:**

With an intention to enhance the present data base on consumption expenditure pattern, an attempt is made in this study to collect data on expenditures of various items of consumption and information on various socio-economic and demographic features of sample rural households in the Guntur district of Andhra Pradesh. Majority of the researchers in their studies on consumption expenditure pattern has given very least priority concern micro level analysis. However majority of researchers (Goreux, L.M.-1960; Sinha, R.P.-1966; N.C.A.E.R.-1967; Kumar, Pushpendra-1967; Singh Balvir-1968; Sastry, S.A.R.-1979; Devendra B. Gupta-1973; Srinivasa Iyengar, N and Lilaram Jain-1974; Choudhury,H-1984; Sandhu,H.S-1985; Mishra.M2004; Nicol.C.J-1993; Panda.B.K-996; Panda.B.K and Panigrahy.S.K-2002; Panda.B.K, Sarangi, P, and Panigrahy.S.K-2007; Bijaya Kumar Panda and Prasant Sarsngi-2010) and their studies on family budget studies in India are based on the consumption expenditure data published by the NSSO.

The present study is an attempt to take into account some of the gaps from the earlier research and to examine the consumption expenditure pattern of the various categories of rural households. It is hoped that this study may prove useful as a contribution to regional budget studies. The order of discussion of the paper is as follows. The following section deals with the material and methodology of the present study. The third section, dedicates the major findings of the present study and finally, brief suggestions and suitable policy implications are presented in last section.

## II

## MATERIAL AND METHODOLOGY

In carrying out the study with the above objectives, the data have been collected from Guntur district, which is one of the fast growing districts of Andhra Pradesh.

According to the Chief Planning Officer, the district was divided into three Revenue Divisions, namely, Narasaraopet, Guntur and Tenali. Three Villages are selected at random from the list of all the villages (one village from each Revenue Division) in the district. After selection of the three villages, a census schedule has been canvassed among the all rural households in the each selected village. From the three sample villages, a sample of 150 households (45 cultivator Households, 73 Agricultural labour households and 32 other rural households) is selected basing on the *'Principle of Probability Proportional Sampling'*.

The information with regard to various socio-economic, demographic and household consumption patterns of different rural occupational groups on various items of household consumption has been collected. An important feature of this study is an attempt to collect the information on household's consumption expenditure on various items of consumption (Rice, Pulses, Milk & Milk Products, Edible oil, Prawns, Marine Fish, Chicken, Mutton, Total Food, Drinks and Narcotics, Clothing, Education, Health, Cosmetics and Toilet items, Total Non-food) together with information on social and demographic factors of the sample rural households.

**Techniques of analysis:**

Mostly tabular forms of percentages are used in the analysis of the socio-economic and demographic features of the sample rural households. For the estimation of the expenditure elasticities the method of Weighted Least Squares (WLS) has been used with the following model.

$$Y \div N = f(X \div N, u)$$

where, 'Y' denoted the expenditure of different groups of sample households; 'X' denoted, per capita total expenditure of the households; 'N' denoted, the size of the household and 'u' denoted, the disturbance term.

## III
## MAJOR FINDINGS OF THE STUDY

The study presents different facets of the variation in the level and pattern of household consumer expenditure and related aspects of the standard of living of the rural households. It covers socio-economic and demographic characteristics of sample households such as Annual average per capita consumption expenditure, Literacy status of heads of sample households, Per cent of drop outs in school going children of sample households, Average age of the heads of sample households, Share of food expenditure in the total household expenditure, Share of non-food expenditure in the total consumption expenditure and average household size over different rural occupational groups. The major findings of this study are summarized in showed in Table: 1 and 2.

**TABLE-1**
**SOCIO-ECONOMIC AND DEMOGRAPHIC FEATURES OF THE SAMPLE RURAL HOUSEHOLDS**

| Sl.No. | Description | Cultivators | Agricultural Labour Households | Other Rural Households | Combined |
|---|---|---|---|---|---|
| 1 | No. of Sample Households | 45 | 73 | 32 | 150 |
| 2 | No. of members in the sample households | 220 | 336 | 132 | 688 |
| 3 | Average household size | 4.90 | 4.60 | 4.13 | 4.59 |
| 4 | Annual average per capita consumption expenditure | Rs. 6020.33 | Rs. 4223.57 | Rs. 5469.00 | Rs. 5643.24 |
| 5 | Literacy status of heads of sample households | 69.31% | 43.30% | 56.21% | 54.98% |
| 6 | Per cent of drop outs in school going children of sample households | 46 % | 64 % | 51 % | 53 % |
| 7 | Average age of the sample households | 57 years | 43 years | 52 years | 51 years |
| 8 | Share of food expenditure in the total household expenditure | 63% | 86% | 61% | 65% |
| 9 | Share of non-food expenditure in the total consumption expenditure | 37% | 14% | 39% | 35% |

**Source**: *Computed from the primary data*

Table-1 shows that the annual average per capita consumption expenditure for all sample rural households is Rs. 5643.24. It is vary among different categories of sample households. It is Rs. 6020.33 for cultivator households, Rs. 4223.57 for agricultural households, Rs. 5469.00 for other rural households. The share of food expenditure in the total expenditure is 63 per cent for cultivators, 86 per cent for agricultural labourers, 61 per cent for other rural households and 65 per cent for all sample rural households.

The average household size for cultivators was 4.90. It is 4.60 for agricultural labourers; 4.13 for other rural households; and 4.59 for all the sample households. The average literacy rate of all sample households is 54.98 per cent. It is highest in the cultivators (69.31 per cent) followed by other rural households (56.21 per cent) and

agricultural labour households (43.30 per cent). Further highest drop outs (64 per cent) of school going children are registered in the case of agricultural labours. Majority of the cultivators are in the above middle age (57 years) and majority of agricultural labours are in the below middle age (43 years).

As per the regression results which have been presented in Table-2, it is possible to classify the nature of various commodities according to the sign and magnitude of the elasticity. Economic theory defines that an item to be luxury, necessary or inferior according to the value of expenditure elasticity ($Þ_e$) of consumption is greater than or equal to unity, lies between zero and unity, or is less to zero.

| Sl. No | Occupational Group | Nature of the Commodities preferred by different Expenditure Groups | |
|---|---|---|---|
| | | Necessaries *($ŋ_e$ is less than one)* | Luxuries *($ŋ_e$ is greater than one)* |
| 1 | Cultivators | Chicken (0.58)<br>Eggs (0.45)<br>Fish (0.51)<br>Milk & Milk Products (0.72)<br>Pulses (0.62)<br>Rice (0.25)<br>Total Food (0.69) | Clothing (1.50)<br>Cosmetics (1.76)<br>Drinks &Narcotics (1.89)<br>Edible oil (1.18)<br>Education (2.50)<br>Health (1.67)<br>Mutton (1.31) |
| 2 | Agricultural Labour Households | Cosmetics (0.62)<br>Drinks & Narcotics (0.57)<br>Eggs (0.58)<br>Fish (0.63)<br>Mutton (0.82)<br>Rice (0.85)<br>Total Food (0.82) | Chicken (1.00)<br>Clothing (1.64)<br>Edible oil (1.29)<br>Education (2.72)<br>Health (1.89)<br>Milk & Milk Products (1.40)<br>Pulses (1.32) |
| 3 | Other Rural Households | Chicken (0.44)<br>Cosmetics (0.47)<br>Drinks & Narcotics (0.32)<br>Eggs (0.36)<br>Fish (0.49)<br>Rice (0.27)<br>Total Food (0.62) | Clothing (1.27)<br>Edible oil (1.07)<br>Education (2.39)<br>Health (1.46)<br>Milk & Milk Products (1.31)<br>Mutton (1.45)<br>Pulses (1.10) |
| | Combined | Chicken (0.54)<br>Cosmetics (0.47)<br>Drinks & Narcotics (0.53)<br>Eggs (0.47)<br>Fish (0.54)<br>Rice (0.56)<br>Total Food (0.79) | Clothing (1.45)<br>Edible oil (1.16)<br>Education (2.46)<br>Health (1.61)<br>Milk & Milk Products (1.09)<br>Mutton (1.37)<br>Pulses (1.15) |

**Source**: *Computed from the primary data*
**Note**: *Figures in the parentheses indicate the magnitude of expenditure elasticities*

The expenditure elasticities ($Þ_e$) for rice were 0.25 for cultivators; 0.85 for agricultural labours; 0.27 for other rural households and 0.56 for the combined

group.The expenditure elasticities ($Ð_e$) for pulses are found to be greater than one for all category of sample households except cultivators which implies that it is very costly for majority of rural households. For combined group the expenditure elasticity ($Ð_e$) for pulses is 1.15. With regard to the milk amd milk products, the value of expenditure elasticities ($Ð_e$) is found to be less than one for cultivator households and greater than one for agricultural labourers, other villagers and combined group. In the case of Edible oils, the expenditure elasticities ($Ð_e$) found to be unitary for all the occupational groups. For combined group, the value of elasticity of edible oils is found to be 1.16. The expenditure elasticity for eggs is less than one. For combined group, the elasticity is 0.47. For almost all the groups, the expenditure elasticity is less than one for fish. For agricultural labourers, the value of the expenditure elasticity ($Ð_e$) for chicken is unitary whereas the expenditure elasticity for mutton is less than one. It is greater than one for cultivators and other rural households.

With regard to total food, the expenditure elasticity ($Ð_e$) is 0.82 for agricultural labourers; 0.69 for cultivators; 0.62 for other rural households and 0.79 for combined group. Clothing has greater than unitary elasticity for almost all the groups. The expenditure elasticity is 1.45 for clothing for combined group. For almost all the occupational categories, the expenditure elasticity ($Ð_e$) for education is greater than one. The elasticity of education for combined group is 2.46. The elasticity for expenditure on Allopathic and total health has greater than one for almost all the groups. For combined group, it is 1.61. The expenditure elasticity ($Ð_e$) of Drinks and Narcotics is found to be more than one in the case of cultivators and less than one for all groups. Its value for combined group is 0.74. Cosmetics come under necessary category having elasticity less than one for all categories of sample households except cultivators.

## IV
## SUGGESTIONS AND POLICY IMPLICATIONS

On the basis of the collected information in the survey and on the basis of results derived from the analysis of consumption expenditure pattern in the sample rural households one can draw the following suggestions and policy implications.

(i).The review of regression results shows that majority of the items (Clothing, Education, Health, Milk & Milk Products, Edible oil, Mutton, Pulses) of consumption of different categories of rural households seems to be costly where the expenditure elasticities ($Ð_e$) are greater than one. Therefore, the policy makers have to consider these results in framing the rural development programmes and planning strategies.

(ii). In order to increase the incomes and standard of living of rural households, the government should consider and announce remunerative prices for agriculture output, especially for paddy and the unscrupulous activities of the private traders in the agricultural-markets need to be regulated.

(iii). In all rural sample households, the magnitude of expenditure elasticity for Milk and Milk products is more than one except cultivator sample households which

implies that Milk and Milk products are very costly in family budgets of rural households. The government should supply milk to these groups through cooperative diary firms with subsidiary rates.

(iv). As the expenditure on Health has a considerable higher share in the expenditures of all the rural families, suitable health insurance programmes should be implemented to these sections.

(v). As the expenditure levels on Alcoholic drinks and Narcotics like tobacco are very high in the case of both agricultural labourers and cultivators, they should be counseled against alcoholism.

(vi) Nearly 45 per cent of the heads of the sample rural households are illiterates and their decisions are very crucial in household decision making and hence they have to be provided compulsory non-formal or adult education programmes which are very much relevant to rural economy.

(vii) It is noticed from the study that the drop-out rates of the school going children is considerably high in both agricultural laborers and cultivators because of chronic social and economic problems. The government should formulate specialised programmers and implement properly for rural families in order to attain one of the millennium development goals of compulsory primary education for all especially for rural households.

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